



## **CRS Report for Congress**

# **U.S.-European Union Relations and the 2007 Summit**

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### **Summary**

The U.S. Congress and successive U.S. administrations have supported the European Union (EU) and the process of European integration as ways to foster a stable Europe, democratic states, and strong trading partners. In recent years, a number of trade and foreign policy conflicts have strained the U.S.-EU relationship. Since the divisive dispute over Iraq in 2003, however, both the United States and the EU have sought to improve cooperation and demonstrate a renewed commitment to partnership in tackling global challenges. This report evaluates the results of the annual U.S.-EU summit on April 30, 2007, in Washington, DC. It will not be updated again. Also see CRS Report RS21372, *The European Union: Questions and Answers*, by Kristin Archick, and CRS Report RL30732, *Trade Conflict and U.S.-European Union Economic Relationship*, by Raymond Ahearn.

### **U.S.-EU Relations: Background**

The European Union (EU) is a treaty-based, institutional framework that defines and manages economic and political cooperation among its 27 member states (Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom). The Union is the latest stage in a process of European integration begun after World War II to promote peace and economic prosperity in Europe. This European integration project has evolved over the last decade from encompassing primarily economic sectors to include developing a common foreign policy, an EU defense arm, and closer police and judicial cooperation.

The U.S. Congress and successive U.S. administrations have supported the EU project since its inception as a way to foster a stable Europe, democratic states, and strong trading partners. The United States has welcomed EU efforts since the end of the Cold War to expand the political and economic benefits of membership to central and eastern Europe, and supports the EU aspirations of Turkey and the western Balkan states. The United States and the EU share a huge and mutually beneficial economic relationship.

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Two-way flows of goods, services, and foreign investment now exceed \$1.0 trillion on an annual basis, and the total stock of two-way direct investment is over \$1.9 trillion.

Nevertheless, the U.S.-EU relationship has been challenged in recent years as numerous trade and foreign policy conflicts have emerged. The 2003 crisis over Iraq, which bitterly divided the EU and severely strained U.S.-EU relations, is most notable, but the list of disagreements has been wide and varied. Although Europeans are not monolithic in their views, many EU member states have objected to at least some elements of U.S. policy on issues ranging from the Israeli-Palestinian conflict to U.S. treatment of terrorist detainees to climate change and aircraft subsidies. Since 2003, however, both sides have made efforts to improve relations, and successive U.S.-EU summits have sought to emphasize areas of cooperation and partnership. At the same time, challenges and some tensions remain in the U.S.-EU relationship.

### **Issues at the U.S.-EU April 2007 Summit**

U.S.-EU summits are held annually; the 2007 summit took place on April 30 in Washington, DC. President Bush, leading the U.S. side, met with Chancellor Angela Merkel of Germany, the holder of the EU's rotating six-month presidency for the first half of 2007, and European Commission President José Manuel Barroso, among others from the EU side. As in previous years, the two sides issued a declaration on political and security issues highlighting areas of U.S.-EU foreign policy cooperation on a wide range of global challenges, from Kosovo to Afghanistan to Darfur. Other summit deliverables were a framework on advancing transatlantic economic integration, the signing of a U.S.-EU air transport agreement, and a joint statement on energy security and climate change. Other selected issues in U.S.-EU relations that figured prominently in summit discussions were the Doha Round of multilateral trade negotiations; the Middle East, including Iran; counterterrorism; and the U.S. visa waiver program.<sup>1</sup>

**Transatlantic Marketplace Initiative.** Upon assuming the EU Presidency in January 2007, Germany's Chancellor Angela Merkel proposed a new initiative to enhance and deepen the transatlantic economic relationship. The proposal advocated further liberalizing transatlantic trade and reducing investment barriers by reducing non-tariff and regulatory barriers to trade. The aim of such efforts is to lower costs to businesses on both sides of the Atlantic and to facilitate higher levels of economic growth. Since the establishment of the New Transatlantic Agenda in 1995, a number of initiatives have attempted to remove remaining non-tariff and regulatory barriers to trade. Although each successive initiative has made some progress towards reducing regulatory burdens, both European and U.S. companies heavily engaged in the transatlantic marketplace argue that the results have not proved materially significant. In a departure from these past efforts that relied substantially on voluntary and non-binding dialogues among regulators with political-level endorsement, the Merkel initiative proposed creating an overarching framework to provide greater commitment on the part of political leaders and greater accountability on the part of regulators. According to *Business Europe*, the EU's main business trade association, this would require legislators and officials to take into account

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<sup>1</sup> Documents from the April 30, 2007 U.S.-EU summit are available on the website of the Delegation of the European Commission to the United States [<http://www.eurunion.org>].

how new laws and regulations affect the transatlantic marketplace.<sup>2</sup> Merkel's proposal also covered issues such as public procurement, intellectual property, energy and the environment, financial markets and security, and innovation.

Building on and borrowing from the Merkel initiative, the 2007 U.S.-EU Summit adopted a *Framework for Advancing Transatlantic Economic Integration*. The framework affirmed the importance of further deepening transatlantic economic integration, particularly through efforts to reduce or harmonize regulatory barriers to international trade and investment. A new institutional structure, a Transatlantic Economic Council (TEC), was established to advance this process. The TEC will be headed on both sides by ministerial-level appointees with cabinet rank. Its mandate is to accelerate on-going efforts to reduce regulatory barriers, in part, by introducing broader participation of stakeholders, including legislators, in the discussions and cooperative meetings. Meeting at least once a year, the TEC will monitor progress and try to identify areas where regulations could be reduced or harmonized. Despite this effort to provide a higher-level political commitment to accelerating transatlantic economic integration, U.S.-European differences in public values over issues such as health safety and environmental protection remain large. The goal of reducing regulatory barriers through harmonization efforts and improved cooperation, combined with divergent regulatory objectives and approaches, thus, remains a difficult target.

**Air Transport Agreement.** An aviation agreement — Open Skies Plus — between the United States and EU was signed at the April 30 summit. The agreement, which had been under negotiation for four years, will substantially liberalize the transatlantic air services market. Congressional approval will not be required. The accord will allow U.S. and EU airlines to fly between any city in the EU and any city in the United States with no restrictions on the number of flights, routes, or prices. It also will open to competition London's Heathrow Airport, where landing rights have been restricted to two British and two U.S. carriers. In addition, the agreement provides some enhanced foreign direct investment opportunities in each other's airlines.

Open Skies Plus takes effect March 30, 2008, and calls for a second phase of aviation liberalization negotiations to commence by May 30, 2008. The European Commission predicts that the initial agreement will lower airline fares on transatlantic travel, expand the number of passengers over the next five years, and create 80,000 new jobs. But the agreement is not without controversy. Many Europeans argue that it is not balanced because it does not give European carriers the right to fly between U.S. cities and maintains limits on EU ownership of U.S. airlines. Although most U.S. airlines support the agreement, the major U.S. unions representing pilots, machinists, flight attendants, and baggage handlers oppose it on the grounds that it will lead to a further erosion of jobs, benefits, and wages.<sup>3</sup>

**Doha Round.** The World Trade Organization's (WTO) Doha Development Round of multilateral trade negotiations has been suspended since July 2006. The round, which seeks to liberalize world trade flows and provide a boost to development and the world economy, has been stymied by persistent differences among the United States, the EU,

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<sup>2</sup> Position Paper on a Transatlantic Framework Agreement, Business Europe, March 1, 2007.

<sup>3</sup> "Is Open Skies Open Season on Union Jobs," *Pacific Business News*, March 26, 2007.

and developing countries on major issues such as agriculture and services. Agreement between the EU and U.S. has been key to the conclusion of previous multilateral trade rounds. Accordingly, at the 2007 summit, leaders reaffirmed their “strong desire to reach a prompt agreement ... that is ambitious, balanced, and creates meaningful new trade flows in agriculture, industrial goods, and services among and between the developed and developing countries.” Trade negotiators from the two sides, however, face a complicated task of getting the rest of the world to accept any agreement the United States and the EU might reach. Developing countries in particular are much more vociferous in their expectations and demands than they were in previous multilateral trade talks.

**Energy Security and Climate Change.** European leaders have made curbing global climate change an integral objective of EU energy security policy. In March 2007, EU members established binding targets for the use of renewable energy and biofuels and committed to cut greenhouse gas emissions by at least 20% compared to 1990 levels by 2020. Building on this agreement, European officials are reportedly seeking U.S. support for an international treaty regulating greenhouse gas emissions after 2012, when the U.N. Kyoto Protocol is set to expire, and for an international market-based carbon emissions credit trading system. The United States is not party to the Kyoto Protocol, and U.S. officials appear reluctant to commit to global regulation; instead, they advocate transatlantic cooperation to promote alternative and clean energy technology.

In light of the differences on global climate change regulation, the United States and EU used the April 2007 summit to launch initiatives jointly promoting technological advances in clean coal and carbon capture and storage, energy efficiency, biofuels, and methane recovery, among other areas. Although European officials agree with the United States that these technologies should help improve transatlantic energy security and mitigate the negative effects of climate change, they are reportedly disappointed by perceived U.S. reluctance to pursue binding international emissions targets and a global carbon trading system. U.S. officials, pointing out that from 2000-2004 carbon dioxide emissions increased at a faster rate in the EU than in the United States, argue that the U.S. approach, based on fostering technological innovation as opposed to binding regulation, is proving more effective in curbing global warming.<sup>4</sup>

At the April 2007 summit, U.S. and European leaders sought to downplay differences over carbon emissions targets and carbon trading, expressing confidence that their decisions to promote clean and renewable energy sources represent a step forward in transatlantic cooperation both to increase energy security and curb climate change. However, analysts note that past efforts — such as a 2006 pledge creating an annual strategic review of U.S.-EU energy cooperation, a U.S.-EU High Level Dialogue on Climate Change, Clean Energy and Sustainable Development, and a U.S.-EU Energy CEO Forum — yielded little if any tangible progress.

**The Middle East.** Over the last few years, the United States and many EU members have differed sharply on policies toward Iraq, Iran, the Israeli-Palestinian conflict, and democracy promotion in the Middle East. Recently, however, the two sides

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<sup>4</sup> “EU and U.S. Head for Climate Change Clash,” *European Voice*, March 29, 2007; Discussions with U.S. and German officials. Also see CRS Report RL33636, *The European Union’s Energy Security Challenges*, by Paul Belkin.

seem to have found more common ground on some of these issues, and the April 2007 U.S.-EU summit highlighted such cooperation. Although EU officials continue to urge the Bush Administration to “do more” to get Israeli-Palestinian negotiations back on track, many appear encouraged by renewed U.S. diplomatic initiatives and note that Washington has backed Germany’s efforts, as part of its EU presidency, to revitalize the largely stalled “road map” for a two-state solution. Washington and the EU have also managed to stay on the same page with regard to policies toward Hamas since it won a majority in the January 2006 Palestinian legislative elections. At the April 2007 summit, the United States and the EU essentially reaffirmed that Hamas must recognize Israel, renounce violence, and accept prior Israeli-Palestinian accords before either side permits contact with Hamas members of the new Hamas-Fatah coalition government. The United States and the EU continue to provide foreign assistance directly to the Palestinian people, rather than giving it through the coalition government; but some analysts question how long the United States and the EU will remain in lock step, suggesting that the EU may be inclined to resume direct aid to the new government sooner than the United States.<sup>5</sup>

As for Iran, the United States has intensified cooperation with France, Germany, and the UK (the “EU3”) to curtail Iran’s suspected nuclear weapons program. In December 2006, and again in March 2007, the EU3 and the United States gained U.N. Security Council approval for limited sanctions on Iran related to its nuclear work. U.S. officials have been urging EU countries to go even further by cutting off bank lending and other financial interactions; EU states have so far responded tepidly to such calls.<sup>6</sup> Tensions between Iran and the West have also risen following Iran’s seizure in March 2007 of 15 British naval personnel off the Iraq/Iran coast and amid U.S. accusations that elements of the Iranian government are supporting sectarian violence in Iraq and supplying insurgents with explosives. At the April 30, 2007 summit, the United States and EU reiterated their commitment to prevent an Iranian nuclear weapons capability and expressed their mutual concern about the negative effects of Iran’s policies in the region, including in Iraq.

The United States and the EU have generally cooperated in providing humanitarian relief and reconstruction assistance to Lebanon, following fighting in July-August 2006 between Israel and the Lebanon-based Hezbollah. A key sticking point, however, is that the EU does not recognize Hezbollah as a terrorist organization. Like the United States, the EU has called on Syria to end all interference in internal Lebanese affairs, but some analysts suggest that the EU has begun softening its policy of isolating the Syrian regime. In the summit declaration on political and security issues, however, the United States and the EU asserted that they remain concerned about Syria’s role in the region and its repression of civil society. Observers suggest that any gap between the United States and the EU on Syria is not that wide, noting that EU officials have stressed that improved relations are contingent on constructive actions by Syria and that some in the United States advocate more engagement with Syria. They also point out that on May 3, 2007, U.S. Secretary of State Condoleezza Rice met with Syria’s foreign minister on the sidelines of an international conference on Iraq.<sup>7</sup>

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<sup>5</sup> “Informal Meeting of EU Foreign Affairs Ministers,” *European Report*, April 3, 2007.

<sup>6</sup> “U.S. Bid To Limit Iran Gets Wary Response,” *Wall Street Journal*, December 29, 2006.

<sup>7</sup> “EU Urges Positive Mideast Role on Damascus,” *Financial Times*, March 15, 2007.

**Countering Terrorism.** Washington has welcomed EU efforts over the last few years to boost police and judicial cooperation, stem terrorist financing, and improve border controls and transport security. The EU and the United States have concluded several new agreements on police information-sharing, extradition, mutual legal assistance, container security, and exchanging airline passenger data. Nevertheless, some challenges remain. For example, a U.S.-EU agreement allowing European air carriers to provide U.S. authorities with passenger data has been controversial because of fears that it compromises EU citizens' privacy rights; the current deal expires in July 2007, and some caution that European Parliamentarians and civil liberty groups may try to stymie its extension. Also, some EU members continue to resist U.S. entreaties to add suspected Hamas-related charities or Hezbollah to the EU's common terrorist list.

Many Europeans fear that the United States is losing the battle for Muslim "hearts and minds" as a result of the Iraq war and some U.S. practices in combating terrorism. For example, EU officials would like the detention center at Guantánamo Bay closed because they believe it degrades shared values regarding human rights and disregards international accords on the treatment of prisoners. In addition, Europeans are concerned about U.S. rendition policy and a CIA program to detain and question suspected terrorists outside of the United States. U.S. officials charge that allegations of U.S. wrongdoing and ongoing criminal proceedings against CIA officials in some EU members may put U.S.-European intelligence cooperation at risk.<sup>8</sup> During the 2007 summit, the United States and the EU reaffirmed that efforts to combat terrorism must comply with international law and promised to deepen U.S.-European dialogue on such issues.

**Visa Waiver Program (VWP).** The EU would like the U.S. VWP, which permits short-term visa free travel for business or pleasure to the United States from certain countries, to be applied to all EU members. Currently, 12 EU members (mostly newer ones from central and eastern Europe) do not qualify for the VWP due to problems meeting the program's statutory requirements. The United States prefers to address this issue on a bilateral basis. However, in part because of growing EU frustration, President Bush announced in November 2006 that he would ask Congress to modify the VWP both to allow new EU members (and other interested states) to qualify more quickly and to strengthen the program's security components. Some Members of Congress oppose expanding or even continuing the VWP because of security concerns, noting that terrorists with European citizenship have entered the United States on the VWP (UK-born Richard Reid, the airplane "shoe bomber," and French citizen Zacarias Moussaoui, the "20<sup>th</sup>" September 11 hijacker, being two examples). Other Members are more supportive of extending the VWP to new EU countries, given their roles as U.S. allies in NATO and in the fight against terrorism. In the 110<sup>th</sup> Congress, several pieces of legislation on the VWP have been introduced in the House and Senate; most are in line with the Bush Administration's policy aims of both expanding the VWP and enhancing its security measures. EU officials continue to press the United States to treat all 27 member states equally under the VWP. At the April 30, 2007, summit, the two sides committed to work toward visa-free travel to the United States for all EU citizens.<sup>9</sup>

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<sup>8</sup> "EU Investigation of CIA Flights May Threaten Intelligence Cooperation," Associated Press, February 28, 2007.

<sup>9</sup> For more information, see CRS Report RL32221, *Visa Waiver Program*, by Alison Siskin.